

Guidelines on Non-Compliance with Laws and Regulations

2023



The Institute of Chartered Accountants of Nepal

Requirement of Consideration of laws and regulations of Nepal Standards on Auditing -250 are as follows:

Effect of Laws and Regulations:

Laws and regulations to which an entity is subject, constitute the legal and regulatory framework. Provisions of some laws and regulations have direct effect on the financial statements, in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws and regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on entity's financial statements. Some entities operate in heavily regulated industries (such as banks, securities exchanges, insurance and chemical companies etc.). Others are subject only to many laws and regulations that relate generally to the operating aspects of the business (such as those related to operational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigations or other consequence for the entity, that may have material effect on financial statements.

Responsibility for compliance with laws and regulations:

The responsibility of management, with oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

Responsibility of an auditor

The requirement in this NSA 250. are designed to assist the auditor in identifying material misstatements of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible to preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, whether caused by frauds or errors. In conducting an audit of financial statements, the auditor takes into account the applicable laws and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with IAASs/NSAs.

Some inherent limitations of an audit are:

- many laws and regulations are relating to the operating aspects of the entity that do not affect the financial statements and are not captured by the entity's information system relevant to the financial reporting;
- in some event or circumstances the conduct and procedures of the management are so willfully or craftily designed to conceal the non-compliances, such as collusion, forgery, deliberate failure to record transactions, overriding the management control mechanism or intentional misrepresentation made to the auditors;
- whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of laws.

Bearing in mind the above nature of inherent limitations and also other risks of misstatements in the financial statements, the professional accountant while performing the audit shall have to design and execute the audit programme effectively with the professional judgement and skepticism with an aim to form an audit opinion that appears fair and reliable to the stakeholders such as investors, creditors, employees and the public in general.

Application of provisions of laws and regulations related to concerned entity depends on the nature, events and circumstances of business or operational activities of the entity concerned. Compliance of provisions of related laws and regulations would enhance the reliability of the financial statements and also increase the credibility of the management and those charged with governance of such entities in the public domain. However, if the management or those charged with governance do not pay due attention in time to the application or adherence to the provisions of laws and regulations that would result in misstatements of facts in financial statements and give rise to frauds, manipulations or imposition of penalties. The consequential effects of non-compliance or suspected non-compliance would seriously impair the reliability of financial statements and erode the reputation of the management and those charged with the governance and also the professional accountants who carried out the audit of such entity. Therefore, it behooves that professional accountants shall be always alert in discharging their professional obligations against the occurrence of non or suspected non-compliance of laws and regulations.

A brief list of some laws and regulations applicable to the concerned entity in course of performing audit, review, assurance or non-assurance services provided by the professional accountants are given in annexure -1.

The professional accountants shall also have to be alert and to comply with the provisions of Professional code of ethics. They have to identify, evaluate and safeguard against the risks or suspected risks of non-compliance of laws and regulations.

Circumstances and events relating to non-compliance with laws and regulations are of varying nature, but some are presented hereunder for easy understanding of the substance of

the matter which can help professional accountants in discharging their professional services in the interest of the public.

Provisions of International Code of Ethics for professional accountants (2018) are given hereunder

Responding to non-compliance with laws and regulations- section 360

Professional accountants are required to comply with the fundamental principles and apply conceptual framework set out in section 120 to identify, evaluate and address threats. (section 360.1)

Self-interest or intimidation threat to compliance with fundamental principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations. (section 360.2)

A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

- a) laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
- b) other laws and regulations that do not have direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspect of the client's business, to its ability to continue its business, or to avoid material penalties. (section 360.3)

Objectives of the professional accountant in relation to non-compliance with laws and regulations

A distinguishing mark of accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:

- a) to comply with the principles of integrity and professional behavior;
- b) by alerting management or where appropriate, those charged with governance of the client, to seek to:
 - i. enable them to rectify, remediate or mitigate the consequences of identified or suspected non-compliances; or
 - ii. deter commission of the non-compliance where it has not yet recurred; and
- c) to take such further action as appropriate in the public interest. (section 360.4)

Requirement and application materials

Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- a. a client;
- b. those charged with governance of a client;
- c. management of a client, or
- d. other individuals working for or under the direction of a client. (*section 360.5 A1*)

Examples of laws and regulations which this section addresses include those that deal with:

- frauds, corruptions and bribery;
- money laundering, terrorist financing and proceeds of crime;
- securities markets and trading;
- banking and other financial products and services;
- data protection;
- tax and pension liabilities and payments;
- environmental protection;
- public health and safety. (*section 360.5 A2*)

Non-compliance might result in fines, litigations or other consequences for the client, potentially affecting its financial statements. Examples include the perpetration of a fraud resulting in significant financial losses to investors and breaches of environmental laws and regulations endangering the health or safety of employees or the public. (*section 360.5 A3*)

In some jurisdictions, there are legal regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal and regulatory provisions might differ or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- a) any requirement to report the matter to an appropriate authority; and
- b) any prohibition on alerting the client. (*section R 360.6*)

A prohibition on alerting the client might arise for example, pursuant to anti-money laundering legislation. (*section 360.6 A1*)

This section applies regardless of the nature of the client, including whether or not it is a public interest entity. (*section 360.7. A1*)

A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. whether a matter is purely inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public. (*section 360.7. A2*)

This section does not address: personal misconduct unrelated to the business activities of the client and non-compliance by parties other than those specified in paragraph 360.5 A1. (*section 360.7. A3*)

Responsibilities of the management and those charged with the governance

Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- a) the client;
- b) an individual charged with governance of the entity,
- c) a member of management; or
- d) other individuals working for or under the direction of the client. (*section 360.8 A1*).

Responsibilities of all professional accountants

Where the professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant shall have regard to the nature of the matter and the potential harm to the interest of the entity, investors, creditors, employees or the general public. (*section (R 360.9)*).

Audit of financial statements: Obtaining an undertaking of the matter

If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. which will include the nature of non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur. (*section R360.10*)

The professional account might become aware of non-compliance or suspected non-compliance in course of performing engagement through information provided by other parties. (*section 360.10 A1*)

The professional accountant is expected to apply knowledge and expertise, and exercise professional judgement. Such knowledge and experience is not expected to be higher than is required to perform the engagement. Whether an act constitutes non-compliance is ultimately

a matter to be determined by court or other appropriate adjudicative authority. (*section 360.10 A2*)

Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm, a professional body or with legal counsel. (*section 360.10 A3*)

If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance. (*section R 360.11*)

The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter. (*section R360.11 A1*)

The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- the nature and circumstances of the matter;
- the individuals actually or potentially involved;
- the likelihood of collusion;
- the potential consequences of the matter;
- whether that level of management is able to investigate the matter and take appropriate action. (*section 360.11 A2*)

The appropriate level of management is usually at least one level above the individual involved in the matter or in case of group, the management that controls the entity. (*section 360.11 A3*)

The professional accountant might also consider discussing the matter with internal auditors. (*section 360.11 A4*)

If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the accountant shall discuss the matter with those charged with governance. (*section R 360.12*)

Addressing the matter

In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:

- a) rectify, remediate or mitigate the consequences of the non-compliance;

- b) deter the commission of the non-compliance where it has not yet occurred; or
- c) disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. (*section R 360.13*)

The professional accountant shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. (*section R 360.14*)

If the management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice. (*section 360.14 A1*)

The professional accountant shall comply with applicable:

- a) laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- b) requirements under auditing standards, including those relating to:
 - identifying and responding to non-compliance, including frauds;
 - communicating with those charged with governance;
 - considering the implications of the non-compliance or suspected non-compliance for the auditor's report. (*section R 360.15*)

Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority. (*section 360.15 A1*)

Communication with respect to groups

Where the professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the two situations, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- a) the accountant is, for purpose of an audit of the group financial statements, requested by group engagement team to perform work on financial information related to the component; or
- b) the accountant is engaged to perform an audit of the component's financial statements for purposes other than the group audit, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of his section. (*section R 360.16*)

Where the group management partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components:

- a) whose financial information is subject to work for purposes of the audit of the group financial statements; or
- b) whose financial statements are subject to audit for purposes other than group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section (*section R 360.17*)

If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R 360.17 (a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17 (b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. (*section R 360.18*)

Determining whether further action is needed

The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance. (*section R 360.19*)

Relevant factors to consider in assessing the appropriateness of the response of management and where applicable, those charged with governance include whether:

- the response is timely;
- the non-compliance or suspected non-compliance has been adequately investigated;
- action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance;
- action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred;
- appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training;
- the non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. (*section 360.19 A1*)

In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest. (*section R 360.20*)

The determination of whether action is needed, and the nature and extent of it, will depend on various factors, including:

- the legal and regulatory framework;
- the urgency of the situation;
- the pervasiveness of the matter throughout the client;
- whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance;
- whether the non-compliance or suspected non-compliance is likely to recur;
- whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or general public. (*section 360.20 A1*)

Examples of circumstances that might cause the professional accountant no longer to have confidence in the integrity of the management and, where applicable, those charged with governance, include situations where:

- the accountant suspects or has evidence of involvement or intended involvement in any non-compliance;
- the accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period. (*section 360.20 A2*)

The professional accountant shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest. (*section R 3260.21*)

Further action that the professional accountant might take includes:

- disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so;
- withdrawing from the engagement and the professional relationship where permitted by law and regulation. (*section 360.21 A1*)

Where the professional accountant has withdrawn from the relationship pursuant to paragraphs R360.20 and 360.21 A1, the accountant shall, on request by the proposed accountant pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed accountant. The predecessor accountant shall do so, even in the circumstances addressed in paragraph R

320.8(b) where the client fails or refuses to grant the predecessor accountant permission to discuss the client's affairs with the proposed accountant, unless prohibited by law or regulation. (*section R 360.22*)

If the propose accountant is unable to communicate with the predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means. (*section R 360.23*)

Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance. (*section 360.23 A1*)

Assessment of the matter might involve complex analysis and judgements; the professional accountant might consider:

- consulting internally,
- obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action,
- consulting on a confidential basis with a regulatory or professional body. (*section 360.24 A1*)

Determining whether to disclose the matter to an appropriate authority

Disclosure of the matter to an appropriate authority would be precluded, if doing so, would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest. (*section 360.25 A1*)

The determination of whether to make such a disclosure depends in particular on the nature and extent of actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- the entity is engaged in bribery (for example local or foreign government officials for purpose of securing large contracts);
- the entity is regulated and the matter is of such significance as to threaten its license to operate;
- the entity is listed on securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial market;
- it is likely that the entity would sell products that are harmful to public health or safety;

- the entity is prompting a scheme to its clients to assist them in evading taxes. (*section 360.25 A2*)

The determination of whether to make such disclosure will also depend on external factors, such as:

- whether the regulatory authority would take appropriate action against cases of non-compliances;
- whether there exists robust and creditable protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation such as under whistle-blowing regulation or legislation;
- whether there are actual or potential threats to the physical safety of the professional accountant or other individuals. (*section 360.25 A3*)

If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R 114.1(d) of the Code. When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter. (*section R 360.26*)

Imminent breach

In exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R 114.1(d) of the Code. (*section 360.27*)

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant shall document:

- how management and, where applicable, those charged with governance have responded to the matter;
- the course of action the accountant considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party test;

- how the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R 360.20. (*section R360.28*)

This documentation is in addition to complying with the documentation requirements under applicable auditing standards, ISA, for example, require a professional accountant performing an audit of financial statements to:

- prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions;
- document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- document identified or suspected non-compliance, and the results of discussions with management and, where applicable, those charged with governance and other parties outside the entity. (*section 360.28 A1*)

Professional services other than audits of financial statements

Obtaining an understanding of the matter and addressing it with management and those charged with governance

If a professional accountant engaged to provide a professional service other than audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur. (*section R 360.29*)

The professional accountant is expected to apply knowledge and expertise, and exercise professional judgement. However, the professional accountant is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. (*section 360.29 A1*)

Depending on the nature and significance of the matter, the professional accountant might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel. (*section 360.29 A2*)

If the professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with the appropriate level of management. If the accountant has access to those charged with governance, the accountant shall also discuss the matter with them where appropriate. (*section R 360.30*)

The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter. (*section 360.30 A1*)

The appropriate level of management with whom to discuss the matter is a question of the professional judgement. The relevant factors to consider include:

- the nature and circumstances of the matter;
- the individuals actually or potentially involved;
- the likelihood of collusion;
- the potential consequences of the matter;
- whether that level of management is able to investigate the matter and take appropriate action. (*section 360.30 A2*)

Communicating the matter to the entity's external auditor

If the professional accountant is performing a non-audit service for:

- a) an audit client of the firm; or
- b) A component of an audit client of the firm,

The accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner. (*section R 360.31*)

If the professional accountant is performing a non-audit service for:

- a) an audit client of a network firm;
- b) a component of an audit client of a network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner. (*section R 360.32*)

if the professional accountant is performing a non-audit service for a client that is not:

- a) an audit client of the firm or the network firm; or
- b) a component of an audit client of the firm or network firm,

the accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any. (*section R 360.33*)

Relevant factors to consider

Factors relevant to considering the communication in accordance with paragraphs R 360.31 to R 360.33 include;

- whether doing so would be contrary to law and regulation;
- whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance;
- whether the purpose of engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action;
- whether management or those charged with the governance have already informed the entity's external auditor about the matter;
- the likely materiality of the matter to the audit of the client's financial statements or, whether the matter relates to a component of a group, its likely materiality to the audit of the group financial statements. (*section 360.34 A1*)

Purpose of communication

in the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section. (*section 360.35 A1*)

Considering whether further action is needed

The professional accountant shall also consider whether further action is needed in the public interest. (section R 360.36)

Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- the legal and regulatory framework;
- the appropriateness and timeliness of the response of management and, where applicable, those charged with governance;
- the urgency of the situation;
- the involvement of management or those charged with governance in the matter;
- the likelihood of substantial harm to the interest of the client, investors, creditors, employees or the general public. (*section 360.36 A1*)

Further action by the professional accountant might include:

- discussing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so;

- withdrawing from the engagement and the professional relationship where permitted by law or regulation. (*section 360.36A2*)

In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- whether doing so would be contrary to law or regulation;
- whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance;
- whether the purpose the management is to investigate potential non-compliance within the entity to enable it to take appropriate action. (*section 360. 36 A3*)

if the professional accountant determines that the disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraphs R 114.1 (d) of the code (*Principle of Confidentiality to not disclose confidential information acquired in course of audit without proper specific authority*). When making such disclosure, the accountant shall act in good faith and exercise caution when making statements and assertions. The accountant shall consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter. (*section R 360.37*)

Imminent breach

in exceptional circumstances, the professional accountant might become aware of actual or intended conduct that the accountant has reason to believe would constitute an imminent breach of law or regulation that would cause substantial harm to investors, creditors, employees or general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R 114. 1 (d) of the Code. (*section R 360.38*)

Seeking advice

The professional accountant might consider:

- consulting internally;
- obtaining legal advice to understand the professional or legal implications of taking any particular course of action;
- consulting on a confidential basis with a regulatory or professional body. (*section 360.39 A1*)

Documentation

In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to document;

- the matter;
- the results of discussion with management and where applicable, those charged with governance and other parties;
- how management and, where applicable, those charged with governance have responded to the matter;
- the course of action the accountant considered, the judgements made and the decisions that were taken;
- how the accountant is satisfied that the accountant has fulfilled the responsibility set out in paragraph R 360.36. (*section 360.40 A1*)

Effective Date :

This Guideline will continue to become effective as of 17 July 2023 when Handbook of the Code of Ethics for Professional Accountants including International Independence Standards 2023 will be effective.

For comprehensive understanding, refer section 360.1 to 360.40 A1. Of International Code of Ethics for Professional accountants (ICOE) 2021 and section 250 (Consideration of laws and regulations in an audit of Financial statements) of IAAS/Nepal Standards on Auditing.

Annexure-1

Brief list of laws and regulations applicable in the audit of financial statements or discharging other professional services, is given hereunder:

- International Financial Reporting Standards (IFRS)/ Nepal Financial Reporting standards(NFRS);
- International Auditing and Assurance Standards (IAAS)/ Nepal Standards on auditing;
- International Code of Ethics/ Nepal Code of Ethics;
- Interpretations issued by the IFRSB/IAASB/IESB/ NASB/NASB;
- Pronouncements by the ICAN;
- Company Act 2063 and its Rules 2064;(with recent amendments)
- Income Tax Act 2058 and its Rules 2059;(with recent amendments)
- VAT Act 2052 and its Rules 2053 (with recent amendments)
- Corporation Acts of Nepal; Nepal Airlines Corporation Act and their regulations;
- Electricity Act and Rules;
- Co-operative Act and regulations;
- NRB Act and regulations;
- NRB Directives
- Insurance Act and Rules and directives of Insurance Board;
- Co-operative Act; and their Directives;
- Public Procurement Act, 2075 and Rules;
- Audit Act 2075 and Rules;
- Bonus Act 2030 and Rules;
- Labour Act and Rules 2075;
- Foreign Investment and technology Transfer Act 2049; Rules
- Employee Provident Fund Act and Rules;
- Various Acts and rules relating to Schools, colleges and universities and Hospitals etc.
- Sangh Sanstha Darta Ain (Act and rules relating to the registration and regulations of INGOs/NGOs etc. and their regulatory directives issued by Social Welfare Council;
- Employee service and benefits rules of respective entities;
- Financial procedures and Rules of respective entities;